

**REPORT OF THE AUDIT OF THE
LEWIS COUNTY
CLERK**

**For The Year Ended
December 31, 2005**

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The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable Shirley Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the County Clerk of Lewis County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2005, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 19, 2006, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Steve Applegate, Lewis County Judge/Executive
Honorable Shirley Hinton, Lewis County Clerk
Members of the Lewis County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Deposit Funds In Interest-Bearing Accounts.

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lewis County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
May 19, 2006

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

State Fees For Services		\$	4,741	
Fiscal Court				4,301
Licenses and Taxes:				
Motor Vehicle-				
Licenses and Transfers	\$	316,737		
Usage Tax		560,891		
Tangible Personal Property Tax		724,768		
Licenses-				
Fish and Game		8,318		
Marriage		4,865		
Deed Transfer Tax		29,630		
Delinquent Tax		74,613		1,719,822
Fees Collected for Services:				
Recordings-				
Deeds, Easements, and Contracts	\$	11,647		
Real Estate Mortgages		16,362		
Chattel Mortgages and Financing Statements		42,524		
All Other Recordings		14,144		
Charges for Other Services-				
Candidate Filing Fees		298		
Copywork		2,832		87,807
Other:				
Misc	\$	182		
Electronic Filing		481		
Candidate Filing Fee		350		1,013
Total Revenues			\$	<u>1,817,684</u>

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
 SHIRLEY HINTON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 246,394	
Usage Tax	544,065	
Tangible Personal Property Tax	268,480	

Licenses, Taxes, and Fees-

Fish and Game	8,073	
Delinquent Tax	8,753	
Legal Process Tax	10,070	
Marriage Licenses	<u>1,904</u>	\$ 1,087,739

Payments to Fiscal Court:

Tangible Personal Property Tax	\$ 71,702	
Delinquent Tax	13,074	
Deed Transfer Tax	<u>28,148</u>	112,924

Payments to Other Districts:

Tangible Personal Property Tax	\$ 355,595	
Delinquent Tax	34,275	
Tax Bills	<u>2,483</u>	392,353

Payments to Sheriff 1,099

Payments to County Attorney 10,131

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 105,503	
Deputy Bond and Unemp. Ins.	218	

Employee Benefits-

Training Incentives	798	
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Contracted Services

Advertising	645	
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The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
 SHIRLEY HINTON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)	
Materials and Supplies-	
Office Supplies	\$ 18,491
Other Charges-	
Clerk's Bond	213
Conventions and Travel	1,247
Dues	400
Postage	3,797
Refunds	677
	<u>\$ 131,989</u>
Total Expenditures	
	<u>\$ 1,736,235</u>
Net Revenues	
Less: Statutory Maximum	\$ 81,449
	<u>67,071</u>
Excess Fees	
Less:	\$ 14,378
Expense Allowance	<u>(3,600)</u>
Excess Fees Due County for Calendar Year 2005	\$ 10,778
Payments to County Treasurer- March 10, 2006	<u>10,778</u>
Balance Due at Completion of Audit	<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan public retirement system that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. The report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Rd, Frankfort, Kentucky 40621-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk follows the requirements of KRS 41.240(4) and does not have a deposit policy for custodial credit risk. As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant-Subsequent Event

In 2005, the County Clerk was awarded a microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$9,457, however there was not any money received, nor expended in 2005. The money was deposited into the Clerk's bank account subsequent to December 31, 2005.

COMMENTS AND RECOMMENDATIONS

LEWIS COUNTY
SHIRLEY HINTON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

The County Clerk Should Deposit Funds In Interest-Bearing Accounts.

We noted that for year-end December 31, 2005, the Clerk does not deposit money into an interest bearing account.

Our recommendation is that the Clerk needs to deposit county funds into an interest bearing bank account, and if not offered by the bank in which the Clerk is banking, then a switch in banks is warranted.

County Clerk's Response: Planning on changing banks.

PRIOR YEAR:

The County Clerk Should Deposit Funds In Interest-Bearing Accounts

This comment was in the prior year audit and has not been corrected.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lewis County Clerk for the year ended December 31, 2005, and have issued our report thereon dated May 19, 2006. The Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lewis County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

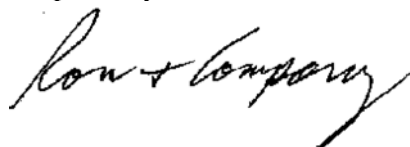
As part of obtaining reasonable assurance about whether the Lewis County Clerk's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comment and recommendation.

- The County Clerk Should Deposit Funds In Interest-Bearing Accounts.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company". The signature is written in black ink and is positioned above the printed name of the firm.

Ross & Company, PLLC

Audit fieldwork completed -
May 19, 2006

